ORIGINAL

Docket No. RT01-35-000

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RECOLATION CONTINUES	
Avista Corporation)
The Bonneville Power Administration)

Idaho Power Company The Montana Power Company Nevada Power Company PacifiCorp Portland General Electric Company Puget Sound Energy, Inc. Sierra Pacific Power Company

PROTEST, COMMENTS AND STATUS REPORT OF DESERET GENERATION & TRANSMISSION CO-OPERATIVE, INC.

Pursuant to Rule 211 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.211 (2000), and the Commission's December 15, 2000 Notice of Filing issued in this proceeding, Deseret Generation & Transmission Co-operative, Inc. ("Deseret"), a timely intervenor, protests and comments on the December 1, 2000 "Concurring Utilities' Amended Supplemental Compliance Filing and Request for Declaratory Order Pursuant to Order No. 2000" filed by Avista Corporation, the Bonneville Power Administration, Idaho Power Company, the Montana Power Company, PacifiCorp, and Puget Sound Energy, Inc. (the "Concurring Utilities"). In addition, Descret reports on the status of its request to participate fully in the Filing Utilities group during the Stage 2 negotiations.

In support of its comments and protests, Deseret states as follows:

I. STATUS REPORT CONCERNING THE INCLUSION OF DESERET IN THE "FILING UTILITIES" GROUP

In Deseret's November 20, 2000 Protest and Comments filed in this proceeding (and previously in its own Order No. 2000 compliance filing submitted to the Commission on Appendix 17. 0312.

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16, 2000, in Docket No. RT01-65-000), Deseret explained its role in the negotiation and filing of the RTO West Stage 1 proposal:

Deseret is the only FERC-jurisdictional public utility that owns transmission facilities contemplated to be part of the RTO West transmission system that was not a sponsor of the Stage 1 Proposal. This was not because Deseret was not interested in sponsoring the filing, but because it was not provided a reasonable and fair opportunity to do so. As a result, Deseret was not adequately represented in all RTO West decision-making processes, as embodied in the Filing Utilities' Stage 1 Proposal.

Descret therefore informs the Commission that any implication on the part of the Filing Utilities that the Stage 1 Proposal represents the consensus opinion of all transmission owning entities planning to place their transmission facilities under the functional control of RTO West is incorrect. The exclusion of Descret (and potentially non-jurisdictional transmission owning entities other than BPA) has impacted the decisions that the Filing Utilities made unilaterally regarding RTO West's features and, in Descret's opinion, has adversely impacted the collaborative process and the RTO West proposal itself.

November 20 Protest and Comments of Deseret at 3-7.

Subsequently, on December 5, 2000, the Filing Utilities submitted their "Answer to Motions to Consolidate and Request for Leave to File Answer to Protests to the RTO West October 23, 2000 Filing" ("December 5 Answer"). In their December 5 Answer, the Filing Utilities stated:

[Deseret] also wants to participate in the Stage 2 on the same basis as the Filing Utilities. . . . Deseret's comments are under consideration, but it would be similarly counterproductive for the Commission to attempt to dictate the extent of Deseret's participation in Stage 2.

December 5 Answer at 10, fn. 15 (internal citations omitted).

Despite their December 5 statement to the Commission that they are "considering" Deseret's participation in the Stage 2 negotiations, as of the date of this filing, the Filing Utilities have not formally contacted Deseret to discuss the possibility of joining their group. While individuals

employed by the Filing Utilities have informally broached the subject with a representative of Deseret, no definitive statements on this issue have been made or specific invitations extended.

In the absence of any definitive action by the Filing Utilities to remedy Deseret's exclusion from the Filing Utilities group, Deseret has no alternative but to request that the Commission act to remedy this discriminatory practice, and to do so in time for Deseret to meaningfully participate in the Stage 2 negotiations, which will be starting very soon (if they have not already commenced). Important decisions affecting transmission owners such as Deseret will be made in Stage 2, and Deseret's interests need to be fully represented.

II PROTEST AND COMMENTS REGARDING THE AMENDED SUPPLEMENTAL COMPLIANCE FILING

In contrast to the position they took in their October 23, 2000 Compliance Filing, the Filing Utilities now seek a Commission order approving the concepts embodied in the Transmission Operating Agreement ("TOA") and the Agreement to Suspend Provisions of Pre-Existing Transmission Agreements ("Suspension Agreement"). Although the Concurring Utilities readily admit that the TOA and Suspension Agreement are subject to further revision "during Stage 2, and as necessary to address other concerns and hurdles," they nonetheless seek preliminary guidance regarding the core concepts of the TOA and Suspension Agreement.

Descret has already submitted extensive comments on these documents directly to the Filing Utilities, as well as in its November 20 Protest and Comments filed with this Commission. Thus, the Commission and the parties are aware of changes and/or clarifications to these agreements which Descret believes are necessary for the proper formation and functioning of the RTO West.

Notably, none of the modifications that Deseret suggested in its November 20 Protest and Comments were made during revision of the TOA. Deseret accordingly incorporates that pleading

herein by reference and reraises the points contained therein for the Commission's consideration.

In addition, however, Deseret makes the following additional points regarding the TOA, as revised.

A. EXHIBIT G OF THE TOA UNNECESSARILY CONFUSES KEY RATE ISSUES SUCH AS THE ALLOCATION OF FTR REVENUES

Significant portions of the rate structure of the RTO West proposal have yet to be disclosed to parties outside the Filing Utilities group. Indeed, the Concurring Utilities readily admit in the instant filing that much work needs to be completed to reach agreement on rate design issues, and that allocation of Firm Transmission Rights ("FTR") will have to be negotiated during the Stage 2 process. See Transmittal Letter at 4. Exhibit G ("Company Rates") to the TOA, however, sets out a formula for calculating Company Rates. As part of the formula, "revenues from the sales of such [FTRs] initially shall be credited pro rata to each Participating Transmission Owner holding the applicable [FTRs], in proportion to the amount that the Transmission Facilities of such Participating Transmission Owner contributes to the subject flowpath." Exhibit G at 1.

Although Exhibit G is far from clear on the issue, the above-quoted language could indicate that such an allocation of revenues to the Participating Transmission Owner would be made, regardless of whether any of the FTRs actually auctioned (and thus giving rise to the auction revenues) were derived from the Participating Transmission Owner's FTRs for those same paths. In other words, a Participating Transmission Owner with FTRs assigned to it covering rights to a constrained flowpath could take no action to alleviate constraints on that flowpath (i.e., fully utilize its assigned FTRs, thus making none of its associated FTRs available for auction), and yet still receive a share of the auction revenues derived from any other Participating Transmission Owner's

release of FTRs associated with that flowpath. In the absence of any explanation to the contrary and without access to the Filing Utilities' discussions on this issue, *see supra*, Descret can only speculate that this is how the Concurring Utilities contemplate this issue will be resolved in Stage 2.

If this is, in fact, the Concurring Utilities' intention, such a result makes little economic sense, and could be seen as no more than a contractual provision for unjust enrichment. It could also be an incentive for a Participating Transmission Owner to hoard its FTRs and not release them, as the Owner would still receive auction revenues if another holder released FTRs for that path into an auction. Revenues from the sales of FTRs should be credited to a Transmission Owner based on methodologies that rationally reflect the manner in which those revenues were generated. The Concurring Utilities should therefore be required to clarify the intent of this provision, and if necessary, revise it to ensure that this principle is honored. The Commission should also make clear that the issue of FTR allocations should be properly addressed in the Stage 2 negotiations, consistent with the above discussion.

B. SECTIONS 7.1 AND 7.3 OF THE TOA WILL IMPAIR THE DEVELOPMENT OF A COMPETITIVE MARKET FOR ANCILLARY SERVICES AND INTERCONNECTED OPERATIONS SERVICES FOR ALL MARKET PARTICIPANTS

Sections 7.1 through 7.3 concern RTO West's provision of Ancillary Services and its acquisition of the Interconnected Operations Services ("IOS") needed to provide such Ancillary Services. Section 7.1 generally directs the RTO to acquire IOS and to provide Ancillary Services by contracting with Executing Transmission Owners or third party providers on a prescheduled dayahead or hour-ahead basis only. If, however, there is no competitive market for IOS, Section 7.1 permits the RTO to make arrangements of longer than one day, but no greater than ninety (90) days,

It is true that Deseret, as a Transmission Owner, could benefit financially from such a scheme under certain circumstances. Notwithstanding this fact, Deseret does not believe that its own economic incentives outweigh the necessity for a proper rate design.

Transmission Owner the right to self supply IOS or provide IOS to third parties, provided that such service meets NERC and WSCC reliability criteria and Tariff requirements. Section 7.3.2 further obligates the Executing Transmission Owner to provide IOS to the RTO for twelve (12) months after the Transmission Service Commencement Date, "pursuant to FERC-approved tariffs." Finally, Section 7.3.4 states that (during and after this initial twelve month period) if the RTO determines it cannot secure sufficient IOS through a voluntary day-ahead and hour-ahead bid system, the Executing Transmission Owner shall upon the RTO West's direction submit a bid for IOS.

There are several flaws with this proposed approach to what is admittedly a difficult issue. First, as now drafted, Sections 7.1 - 7.3 do not make clear the relationship in the TOA and the RTO West Tariff between IOS and Ancillary Services. It appears that the intent was to allow a Transmission Customer, who is also an Executing Transmission Owner, to self-supply IOS in order to satisfy the Tariff requirement to provide Ancillary Services as a Transmission Customer. However, the language, as now drafted, fails to create the linkage between the provision of IOS under the TOA and the corresponding satisfaction of the obligation to procure Ancillary Services under the RTO West Tariff. Just as important, the newly revised language could be construed to mean no parallel rights exist to self supply or self track Ancillary Services, or to sell Ancillary Services to third parties. Since Executing Transmission Owners will almost certainly be Transmission Customers under the RTO West Tariff, their right to self supply Ancillary Services is very important, and must not be curtailed by contract, even unintentionally.

Second, in the specific context of a found lack of a competitive market for such products, RTO West should not be unnecessarily constrained to entering into only relatively short term arrangements (less than ninety days) for IOS and Ancillary Services. This change revises the previous draft of the TOA, which did not have such a restriction (but which was itself limited to six

months after the Transmission Service Commencement Date). One lesson that can be gleaned from the current situation in the California market is that parties, including the RTO, must have the flexibility to enter into longer term arrangements, if no competitive spot market for a particular power product exists. The practical effect of this new modification is to time-limit the ability of the independent board of the RTO to provide an adequate remedy to the IOS/Ancillary Services situation before it can stabilize the relevant market, thereby preserving the potential for higher market prices for such products and corresponding injury to electric consumers. Deseret believes that the better course would be to leave the necessary discretion to the independent RTO board and management to contract for such services as the RTO thinks best if a competitive IOS/Ancillary Services market has not developed. Any limitations on the RTO's flexibility should be contained in the RTO West Tariff, and not the TOA, so that such limitations can be amended as needed to reflect changing circumstances.

Third, Section 7.3.2 fails to specify that Executing Transmission Owners will provide IOS to the RTO at cost-based rates (rather than "FERC-approved tariffs"), for the initial twelve month period after the start of RTO operations. Such a short-term, cost-based backstop will be necessary to ensure a smooth transition to the RTO regime.

Finally, Deseret must protest the disparate treatment of Transmission Customers vis a vis Executing Transmission Owners which is created in part by Section 7 of the TOA. To discern these differences, one must also examine the newly-amended TOA Exhibit A definitions of "Self-Provision" and "Self-Tracking":

"Self-Provision" means provision of the electric generation capacity or contracts for use of such electric generation capacity for use by RTO West to reduce or eliminate the Executing Transmission Owner's need to acquire Ancillary Services, which provision shall exempt the Executing Transmission Owner from paying the RTO West charges for Ancillary Services in the amount of electric generation capacity so provided.

"Self-Tracking" means the use by a transmission customer of electric generation capacity it controls or contracts for to reduce or eliminate its obligation to acquire Ancillary Services requirements, including the matching of electric generation to load within an RTO West defined time standard.

TOA Exhibit A, Redline Version at 95-96.

In conjunction with Section 7.3.1, described above, it appears that the revised TOA would give an Executing Transmission Owner superior rights to a Transmission Customer. The Executing Transmission Owner must simply provide its own electric generation capacity (or contracts therefor) to the RTO to reduce or eliminate its requirements for Ancillary Services (presumably associated with provision of transmission service to its own native load). On the other hand, a Transmission Customer with generating resources or contracts is held to a different standard, and may be time-limited or even precluded from using its generation resources and contracts at certain times by the RTO. Self-supply of resources, whether by a Transmission Customer or a Transmission Owner, should be on a comparable basis, and not governed by arbitrary labels such as "self provision" versus "self tracking."

C. SECTIONS 12.1 AND 12.2 OF THE TOA UNDERCUT THE PLANNING ROLE OF RTO WEST

Sections 12.1 and 12.2 (formerly Sections 12.1.1 and 12.1.2) attempt to delineate the respective planning roles of RTO West and the Executing Transmission Owners. Section 12.1 states that RTO West has "primary responsibility" for planning of the RTO West Controlled Transmission Facilities, and the right to review proposals for additions or modifications to such facilities. Section 12.2 then gives the Executing Transmission Owner the responsibility to plan its Transmission Facilities, and to make additions, modifications and expansions to its Transmission Facilities, if the

Commission deems the Executing Transmission Owner to be independent from market participants, or it is entitled to exercise such authority.

The Concurring Utilities explain these changes as follows:

The Concurring Utilities have removed many of the planning details from the [TOA] because they intend to include these instead in the RTO West Tariff as submitted in the Stage 2 filing. This is to afford RTO West flexibility to change its planning role over time.

Transmittal Letter at 16.

Yet, through Section 12.2, the Concurring Utilities have essentially attempted to ensure that planning will be dominated by the Executing Transmission Owners, and <u>not</u> RTO West, so long as the Owners are considered by the Commission to be independent of market participants or if they are "entitled to exercise such authority." Section 12.2 indeed states that RTO West will in such circumstances retain "primary planning responsibility" and "final decision making authority." But the latter portion of the same section severely undercuts the efficacy of those rights by then providing that RTO West will *not* unreasonably delay or withhold approval of facilities that the Executing Transmission Owner plans, so long as the facilities "do not impair reliability or Total Transfer Capability of the RTO West Controlled Transmission System." This is an extremely low threshold for approval, under which the RTO could be required to approve transmission facilities that it believes to be totally unneeded, so long as System reliability is not impaired.

Transmission planning is an important and complex undertaking that will not benefit from too many cooks. Final decisions on proposed facilities affecting the TTC of the RTO Controlled Transmission System should be made by RTO West, and not individual Executing Transmission Owners. The Concurring Utilities' attempt to cut back RTO West's role in the planning process in the TOA, the forthcoming Tariff, or any other document, should therefore be rejected.

D. TOA SECTION 15.1'S LANGUAGE REGARDING FTRS "OF COMPARABLE VALUE"
CONFUSES THE ISSUE OF WHAT A PRE-EXISTING TRANSMISSION RIGHTS HOLDER
WILL RECEIVE

Section 15.1 has been modified to grant the Executing Transmission Owner FTRs to replace, inter alia, pre-existing firm transmission rights, "with rights of comparable value, taking into account feasible dispatch and such features as flexible scheduling rights to multiple points of delivery." [Emphasis supplied.] Deseret believes that the newly-added "comparable value" language creates confusion rather than clarity, as the Concurring Utilities suggest. The "comparable value" standard seems to imply that FTRs of roughly comparable economic value are an adequate replacement for specific preexisting firm transmission rights, rather than replacement with FTRs that will actually enable the Executing Transmission Owner to continue to serve its pre-existing contract loads. The TOA should be modified to make clear that this is not the case.

E. SECTION 5.1.2.1 OF THE TOA IMPROPERLY SHIFTS "DISTRIBUTION" FACILITIES OUTSIDE THE DEFINITION OF RTO WEST CONTROLLED TRANSMISSION FACILITIES ON A DISCRIMINATORY BASIS

Section 5.1.2.1 specifies that facilities classified as distribution facilities pursuant to a federal or state order, but that also meet the definition of RTO West Controlled Transmission Facilities, will not be considered RTO West Controlled Transmission Facilities. Instead, the RTO will only include these facilities in its planning processes and determine Total Transfer Capability ("TTC") based in part on such facilities. Should improvements to these facilities be necessary to maintain reliability or improve TTC, the owner of the facilities will be responsible for such upgrades, with the RTO accepting a negotiated allocation of cost responsibility. The Concurring Utilities further state that this provision will only be applicable to the facilities of Puget Sound Energy, Inc., and included only in its TOA. Transmittal Letter at 9-10.

As a general matter, Descret does not believe that facilities meeting the definition of RTO West Controlled Transmission Facilities should be outside the RTO's control, regardless of the

classification of those facilities as "distribution." It is detrimental to the RTO's ability to carry out its mission if it does not in fact have control of all facilities meeting the standard for RTO control. Nonetheless, if such an exception is going to exist for distribution facilities, it should be included in all TOAs and should be available to all Participating Transmission Owners, rather than just Puget Sound Energy. Otherwise, discriminatory treatment of Transmission Owners will be introduced into the RTO structure before it even commences operations.

F. ADDITIONAL TOA CLARIFICATIONS ARE NECESSARY

In addition to the points raised above and the points raised in its November 20 Protest and Comments, Deseret believes that the following clarifications are necessary:

(1) TOA Section 2.4.2

Section 2.4.2 concerns, *inter alia*, the effect of termination of the TOA and the corollary recommencement of suspended rights and obligations under Pre-Existing Transmission Agreements. Specifically, in the event of the termination of the TOA, the Executing Transmission Owner's rights and obligations "with respect to the provision of services" under the Pre-Existing Transmission Agreement will recommence. The Concurring Utilities state that the modifications to Section 2.4.2 purport to "make clear the intent of this section with respect to the rights of transmission customers if an Executing Transmission Owner terminates its Transmission Operating Agreement." Transmittal Letter at 8.

It is, however, unclear from the revisions to Section 2.4.2 what *rates* would apply to the service once the suspension has been lifted. The new language regarding the "provision of services" could be construed to mean that terms and conditions of service under the Pre-Existing Transmission Agreement would again apply, but that the rates under that agreement would not. Accordingly, Section 2.4.2 should be revised to make clear that the rates in the Pre-Existing Transmission

Arrangements would govern in such a situation, not the RTO West rates. If this is not the result that the Filing Utilities intend, then further clarification is required.

(2) TOA Section 2.5

Section 2.5, as revised, states that "if Participating Transmission Owners whose transmission facilities serve loads whose cumulative payments recover half or more of RTO West's costs give notice of their intent to terminate their [TOAs], with such termination to be within one (1) year before or after the Executing Transmission Owner's termination, the obligations of the Executing Transmission Owner following its termination also shall include a share of RTO West's net costs, if any, of terminating RTO West's operations and winding up its corporate existence, if RTO West is dissolved." TOA Section 2.5 (emphasis added). The intent of the section is to assign responsibility for RTO West's costs if there is a wave of Transmission Owner defections, resulting in the RTO's termination. Deseret believes this section is appropriate. However, the phrase "RTO West's costs" should be further clarified. Deseret presumes that the Filing Utilities intended to mean the costs necessary to maintain RTO West itself as an ongoing entity (such as the RTO's A&G Expenses), and not all transmission related costs that the RTO might collect and pass through to the Transmission Owners to reimburse them for the use of their transmission facilities.

(3) TOA Sections 5.2, 5.2.1-5.2.3

Section 5.2 and its subsections generally deal with the obligations of an Executing Transmission Owner to maintain and restore the TTC of RTO West Controlled Transmission Facilities. Section 5.2.3 permits an Executing Transmission Owner to avoid the obligation to restore TTC by agreeing with a Transmission Customer instead to provide economic payment. In such instances, RTO West will support the recovery of such "reasonable payments" as a transmission cost. In support of this new provision, the Concurring Utilities state that in some instances, restoration of TTC may not be not economic. Transmittal Letter at 11.

Although the concepts embodied in Section 5.2.3 are correct, some drafting refinements would be useful. For example, as drafted, this section fails to limit such economic payments to an amount less than the total cost of restoring TTC at the time the economic payment is determined. RTO West should not be required to foot the bill for economic payments that in fact exceed the cost of restoring TTC. More importantly, any such economic payments, whether to a single customer or a group of customers, must continue to make economic sense (i.e., continue to remain less than the cost of restoring TTC) over the life time of any such payment agreement. If, at a later date, restoration of TTC would be more economic than continued payments, RTO West should direct restoration to commence. With these limitations in place, it would be appropriate for any financial arrangements with transmission customers made in lieu of restoring TTC to be included in transmission costs of service on the same basis as costs required to restore TTC.

Rather than redraft Section 5.2.3, however, Deseret believes that RTO West should consider modifying Section 5.2 in its entirety to incorporate this concept, thus providing a more encompassing and comparable approach to determinations regarding TTC maintenance and restoration. Such a modification would ensure that Executing Transmission Owners are using the most economic option to deal with TTC reductions, and that all options are afforded comparable rate treatment.

(4) TOA Section 5.8.8

Section 5.8.8 concerns actions necessary by the RTO and the Executing Transmission Owner to restore service after outages on RTO West Controlled Transmission Facilities. As currently drafted, Section 5.8.8 assigns the responsibility to the Executing Transmission Owner to "initiate and prioritize" restoration, based on whether the reliability of the RTO West Controlled Transmission System is jeopardized by the outage. If such reliability is not jeopardized, then the Executing Transmission Owner takes the lead in restoring service; if, however, the reliability of RTO West Controlled Transmission System is jeopardized, then the Executing Transmission Owner must follow the directions of RTO West in restoring service.

Section 5.8.8, however, begs the question of exactly who decides the threshold question of whether the outage affects the reliability of the RTO West Controlled Transmission System. Descret believes that RTO West (or the entity hired by RTO West to act as regional security coordinator) should make this determination. Clarification of Section 5.8.8 is therefore required to make this point clear. The RTO or its designated regional security coordinator must be responsible for such determinations regarding reliability and the Executing Transmission Owners must act in a manner consistent with the RTO's instructions if necessary to restore the reliability of the RTO West Controlled Transmission System.

(5) TOA Exhibit A- "RTO West Controlled Transmission Facilities"

The definition of "RTO West Controlled Transmission Facilities" in Exhibit A to the TOA has been changed to include "all Transmission facilities that have a material impact on (1) Total Transfer Capability of a Flowpath, (2) the ability to transfer electric power and energy within a Congestion Zone or (3) the ability to transfer electric power between RTO West and adjacent Control Areas." The Concurring Utilities explain that these modifications are to "clarify rather than to change this definition." Transmittal Letter at 20. Once again, the Concurring Utilities' attempt to clarify the TOA definition has created more confusion than clarity.

The term "Control Area" is itself a defined term in Exhibit A to the TOA. But as that definition states, it may be modified by the definition of that term set out in the RTO West Tariff. Without knowing if the RTO West Tariff will define the term "Control Area" differently, it is difficult to state that all existing control areas, including not only those that border RTO West, but also those control areas that will exist within RTO West's footprint (but are not part of the RTO), will be included for the purposes of the definition of "RTO West Controlled Transmission Facilities."

It should be noted that a similar problem exists in the new TOA definition of the term "Transmission Customer." The Concurring Utilities make reference to the definition of that term in the RTO West Tariff, which has yet to be provided. Without seeing the parallel definition in the Tariff, it is impossible to ascertain whether the definition is adequate.

Moreover, the Concurring Utilities note that they made a substantive change to the definition of RTO West Controlled Transmission Facilities to "reflect [their] view that not all facilities in a given substation will necessarily be classified in the same manner." Transmittal Letter at 20. Yet, the revised language attempting to deal with the substation issue remains confusing. A simpler solution would be to eliminate the revised sentence (the second to last sentence) in the definition of "RTO West Controlled Transmission Facilities" in its entirety, and insert a reference in the second sentence as follows: "... the Transmission Facilities specified in Exhibit D shall include all Transmission Facilities up to the low-voltage side of a transformer that have a material impact. . ."

III. CONCLUSION

For the reasons set forth above, Deseret respectfully requests the Commission to: (1) order the Filing Utilities to make the clarifications and changes in the RTO West filing requested in Deseret's November 20 Protest and Comments and in the instant pleading, as set out above; (2) instruct the Filing Utilities to include Deseret as a full participant in all Stage 2 negotiations; and (3) grant any further relief as it may deem appropriate under the circumstances.

Respectfully submitted,

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